National Bank of Poland preview: Policymakers to wait for the March inflation projection

Polish monetary policymakers are widely expected to maintain interest rates and delay easing until the second quarter of next year, as the March economic projection is seen as a better indicator of future inflation. The first 25bp rate cut is anticipated in 2Q 2025, and we see policy rates falling by 100bp by the end of next year

NBP Governor Adam Glapiński

March 2025 NBP projection more important than November 2024 forecasts

The National Bank of Poland is expected to keep interest rates unchanged on 6 November (the main policy rate still at 5.75%) and disregard the 2024 autumn macroeconomic projections which are likely based on uncertain assumptions regarding administered prices. The government still has not decided on extending the measures to protect households from higher electricity prices. By the end of 2024, the net price of electricity for households is capped at PLN500/MWh, whereas the official tariff approved by the energy market watchdog (URE) is at PLN623/MWh.

If there is no action, the hike of PLN123/MWh will be enacted, which – together with higher distribution fees – would translate into a 20% month-on-month increase in electricity prices and add some 0.9 percentage points to overall CPI. Authorities still do not have the budget secured to extend the cap (around PLN5bn, 0.15% of GDP needed), so we may have a substantial increase in energy prices for households from the beginning of 2025. That is one of the reasons why monetary policymakers are expected to delay the beginning of the monetary easing cycle. The majority of rate-setters have said they would rather wait for the March 2025 projection before considering any change in the monetary policy stance.

Elevated CPI inflation is still the main obstacle to easing monetary policy

The main rationale behind keeping NBP rates at a high level and maintaining the hawkish bias is continuously rising headline inflation (5.0% year-on-year in October, up from this year's low of 2.0% YoY in March) and persistently elevated core inflation (above 4% YoY). High CPI inflation reflects the delayed impact of energy (electricity and gas) prices on consumer prices after they were administratively frozen for households during the most acute phase of the global energy shock. At the same time, core inflation reflects the upward pressure of high labour costs on services prices, which is linked to significant hikes in minimum wages. Most forecasts point to a substantial improvement in the inflation outlook in the second half of next year when base effects fade and inflationary pressures are expected to moderate, but the uncertainty regarding such a scenario remains high.

Fiscal developments do not help either

Another factor that may contribute to a hawkish monetary policy bias in the near term is expansionary fiscal policy. Last week's 2024 budget act amendment brought a higher cash-based state deficit this year to the tune of PLN56bn, meaning that fiscal policy is looser than envisaged. What's more, the mid-term consolidation plan is backloaded and lacks detail, which the NBP may perceive as an upside inflation risk. Fiscal developments will certainly be mentioned as a risk factor at NBP Governor Adam Glapiński's press conference on Thursday.

Economic growth easing irrelevant to MPC at the current juncture

Recent data flow from the real economy has been disappointing and points to softer-than-expected economic growth in the third quarter and in 2024 as a whole. However, we do not think this will translate into more dovish signals from the MPC. If anything, it may prompt more attention to the economic growth path in the November NBP projection compared to the CPI path. But it is not an important topic for policymakers at this stage and we don't think it will bring forward the beginning of the easing cycle.

Rate cutting cycle to start in 2Q25

In our view, two conditions need to be met for the MPC to start cutting rates. First, the CPI inflation turnaround needs to be visible in the data. Second, reliable projections should point to a sustainable decline in headline inflation to the central bank target of 2.5% (+/- 1 percentage point). We believe both conditions will be fulfilled in May 2025 at the earliest when policymakers will have more reliable March projections based on real-world energy prices and an updated starting point.

The key unknown is whether rate-setters start cutting rates as early as the first CPI inflation decline in monthly data (in our view end-April flash CPI reading) or wait for several readings that confirm the downward trend in inflation. We still see May 2025 as the most likely moment the easing cycle might start in Poland.

Author

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl